

FDIC State Profile

Summer 2005

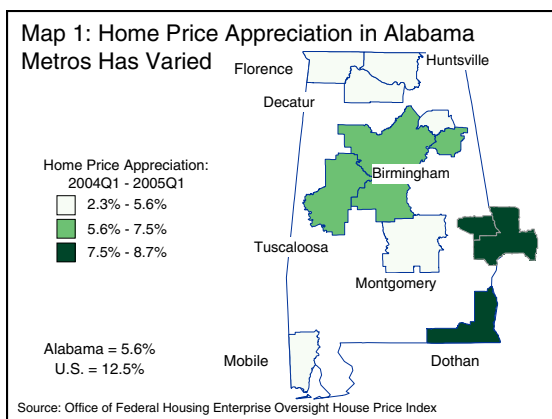
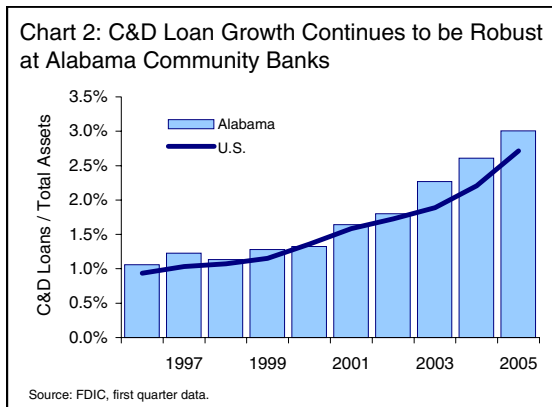
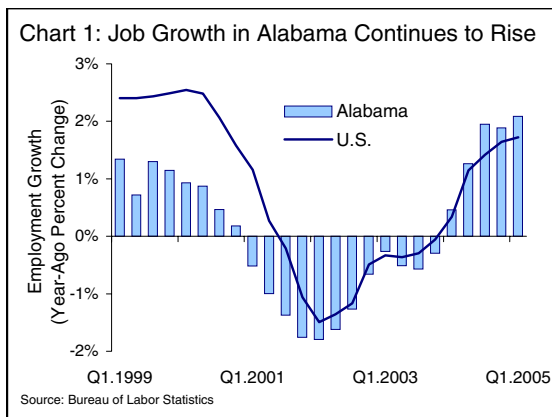
Alabama

Alabama's economy continues a measured recovery.

- Alabama continued its economic recovery in first quarter 2005 as jobless rates reached post-recession lows, and payroll growth continued a steady pace. Positively, initial unemployment insurance filings have reached three-year lows. Total employment, however, remains below its pre-recession peak and, current growth is plateauing as the expansion of emerging manufacturing industries, mostly automobile-related, is slowing (See Chart 1). As expansion in this sector ebbs, continuing job losses in other manufacturing industries, mainly the textile and apparel sector, likely will constrain overall job growth.
- The Black Belt region continues to see a robust economic recovery, with jobless rates approaching post-recession lows. In contrast, growth in some metropolitan areas has been more measured. For instance, in **Birmingham**, **Decatur**, and **Gadsden** job gains lagged the state average in first quarter 2005. In **Mobile** and **Selma**, however, the improvement in unemployment rates has been led by a shrinking labor force rather than job growth.
- Alabama's economic outlook appears positive in the short-term; however, the state may face long-term challenges as its economic recovery reaches maturity. In particular, the state's high-wage automobile manufacturing industry is expected to see slowing job growth in both primary production facilities and secondary parts suppliers.

Robust residential construction lending at Alabama community banks is supporting the housing sector.¹

- Residential real estate demand has experienced some strengthening, as year-to-date first quarter 2005 home sales increased slightly from year-ago levels. A concurrent decline in home listings indicates some contraction in the supply of housing for sale. Homebuilding activity has also slowed in first quarter 2005, with permit issuance declining from year-ago levels.



¹Community banks include all financial institutions with assets less than \$1 billion and exclude specialty and de novo institutions.

State Profile

- Construction and development (C&D) lending grew nearly 30 percent from a year ago, though exposures are mostly in line with the national level (See Chart 2). However, the **Montgomery** metropolitan area, which ranked 12th nationally, had a C&D to capital ratio of 175 percent at first quarter 2005, up from 150 percent a year earlier.

Home price appreciation in the state is well below the national level, but home prices are high relative to household income.

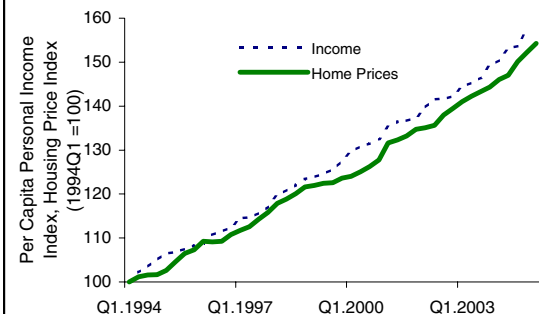
- Despite declining permit issuance, home price appreciation in Alabama has experienced only modest increases from year-ago levels. The state is ranked 40th among all states in year-ago home price appreciation in first quarter 2005. Among metropolitan areas in the state, the **Auburn** and **Dothan** metros have seen the strongest price increases from a year ago (See Map 1).
- Incomes in Alabama have generally kept pace with home price appreciation (See Chart 3). While the statewide median home price to income ratio remains below national levels; however, it reached a record level last year (See Chart 4). In 2004, estimated median household income of \$35,823 was 6 percent below the amount needed to finance the purchase of the median priced home in Alabama.² This shortfall may explain why slightly more than 18 percent of securitized mortgage originations in the state were interest-only in 2004.³ The increased use of innovative lending products may suggest that homebuyers are stretching to purchase higher priced homes. Interest-only mortgages may expose homebuyers to greater repayment risk when the interest rate resets or amortization begins.
- Coastal **Baldwin County** has one of the most active residential real estate markets in the state, with continued growth in residential permit issuance and steady increases in median home selling prices. However, home sales have declined modestly thus far in 2005. Anecdotal reports suggest a growing level of speculation in the coastal condominium market because of multiple sales or “flipping” of pre-completion units.

Bank returns improved as net interest margins expanded.

- During first quarter 2005, Alabama community banks had an increase in their return on assets (ROA). ROA rose 8 basis points to 1.21 percent primarily because of an expansion in net interest margins and a reduction in loan

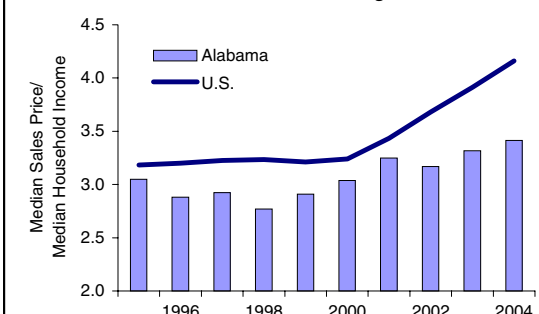
loss expenses. Additional support in the improved ROA came from lower operating expenses (See Chart 5).

Chart 3: Incomes in Alabama Have Kept Pace with Home Price Appreciation



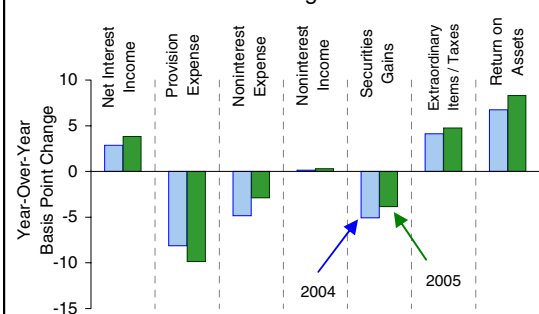
Source: Bureau of Economic Analysis, Office of Federal Housing Enterprise Oversight

Chart 4: Alabama's Home Price-to-Income Ratio Remains Below the National Average



Source: Bureau of Census and Economy.com

Chart 5: Alabama Community Bank Return on Assets Benefited From Rising Net Interest Income



Source: FDIC, first quarter data.

²Assumes buyer purchases home with a 20 percent down payment, 30-year fixed-rate mortgage, and dedicates 30 percent of gross monthly income to debt service, taxes and insurance.

³Peter Coy, "A Growing Tide of Risky Mortgages," Business Week, May 18, 2005.

Alabama at a Glance

ECONOMIC INDICATORS (Change from year ago quarter, unless noted)

| Employment Growth Rates | Q1-05 | Q1-04 | Q1-03 | Q1-02 | Q1-01 |
|--|--------------|--------------|--------------|--------------|--------------|
| Total Nonfarm (share of trailing four quarter employment in parentheses) | 2.1% | 0.5% | -0.3% | -1.8% | -0.5% |
| Manufacturing (15%) | 2.2% | -3.8% | -3.5% | -7.2% | -5.8% |
| Other (non-manufacturing) Goods-Producing (6%) | 4.3% | 2.7% | -1.0% | -4.1% | -0.1% |
| Private Service-Producing (60%) | 2.2% | 1.6% | 0.1% | -0.6% | 1.1% |
| Government (19%) | 0.8% | -0.1% | 1.7% | 0.3% | -0.2% |
| Unemployment Rate (% of labor force) | 5.1 | 5.7 | 5.5 | 5.4 | 4.5 |

| Other Indicators | Q1-05 | Q1-04 | Q1-03 | Q1-02 | Q1-01 |
|--|--------------|--------------|--------------|--------------|--------------|
| Personal Income | N/A | 4.7% | 3.8% | 3.6% | 4.6% |
| Single-Family Home Permits | 1.7% | 22.2% | -2.7% | 21.6% | -4.3% |
| Multifamily Building Permits | 0.0% | 128.3% | 26.7% | -26.4% | 84.0% |
| Existing Home Sales | 15.5% | 24.5% | 10.7% | 14.4% | -1.7% |
| Home Price Index | 5.6% | 3.6% | 4.4% | 2.6% | 6.2% |
| Bankruptcy Filings per 1000 people (quarterly level) | 2.41 | 2.35 | 2.38 | 2.23 | 2.17 |

BANKING TRENDS

| General Information | Q1-05 | Q1-04 | Q1-03 | Q1-02 | Q1-01 |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|
| Institutions (#) | 160 | 163 | 161 | 168 | 170 |
| Total Assets (in millions) | 181,057 | 218,746 | 207,331 | 190,357 | 187,054 |
| New Institutions (# < 3 years) | 7 | 7 | 7 | 9 | 7 |
| Subchapter S Institutions | 26 | 23 | 23 | 21 | 19 |

| Asset Quality | Q1-05 | Q1-04 | Q1-03 | Q1-02 | Q1-01 |
|--|--------------|--------------|--------------|--------------|--------------|
| Past-Due and Nonaccrual Loans / Total Loans (median %) | 1.76 | 2.37 | 2.99 | 2.74 | 2.74 |
| ALLL/Total Loans (median %) | 1.33 | 1.35 | 1.36 | 1.32 | 1.28 |
| ALLL/Noncurrent Loans (median multiple) | 2.19 | 1.74 | 1.42 | 1.36 | 1.49 |
| Net Loan Losses / Total Loans (median %) | 0.26 | 0.27 | 0.30 | 0.30 | 0.29 |

| Capital / Earnings | Q1-05 | Q1-04 | Q1-03 | Q1-02 | Q1-01 |
|--|--------------|--------------|--------------|--------------|--------------|
| Tier 1 Leverage (median %) | 9.89 | 9.50 | 9.76 | 9.44 | 9.48 |
| Return on Assets (median %) | 1.12 | 1.13 | 1.12 | 1.12 | 1.05 |
| Pretax Return on Assets (median %) | 1.50 | 1.53 | 1.50 | 1.51 | 1.48 |
| Net Interest Margin (median %) | 4.23 | 4.18 | 4.19 | 4.24 | 4.18 |
| Yield on Earning Assets (median %) | 7.10 | 7.06 | 7.17 | 7.42 | 7.79 |
| Cost of Funding Earning Assets (median %) | 2.87 | 2.82 | 3.01 | 3.22 | 3.64 |
| Provisions to Avg. Assets (median %) | 0.24 | 0.26 | 0.25 | 0.23 | 0.22 |
| Noninterest Income to Avg. Assets (median %) | 0.72 | 0.73 | 0.73 | 0.72 | 0.71 |
| Overhead to Avg. Assets (median %) | 2.93 | 2.93 | 2.87 | 2.87 | 2.85 |

| Liquidity / Sensitivity | Q1-05 | Q1-04 | Q1-03 | Q1-02 | Q1-01 |
|--|--------------|--------------|--------------|--------------|--------------|
| Loans to Assets (median %) | 59.9 | 60.0 | 60.8 | 61.0 | 61.1 |
| Noncore Funding to Assets (median %) | 24.8 | 24.6 | 24.0 | 23.8 | 23.8 |
| Long-term Assets to Assets (median %, call filers) | 20.2 | 22.8 | 20.4 | 20.8 | 21.3 |
| Brokered Deposits (number of institutions) | 49 | 50 | 43 | 37 | 39 |
| Brokered Deposits to Assets (median % for those above) | 4.9 | 4.0 | 3.7 | 3.5 | 2.2 |

| Loan Concentrations (median % of Tier 1 Capital) | Q1-05 | Q1-04 | Q1-03 | Q1-02 | Q1-01 |
|---|--------------|--------------|--------------|--------------|--------------|
| Commercial and Industrial | 78.3 | 85.4 | 88.5 | 91.0 | 97.7 |
| Commercial Real Estate | 193.8 | 185.3 | 182.5 | 167.2 | 144.6 |
| <i>Construction & Development</i> | 32.3 | 27.5 | 24.9 | 20.3 | 19.0 |
| <i>Multifamily Residential Real Estate</i> | 3.8 | 2.6 | 2.9 | 3.0 | 1.3 |
| <i>Nonresidential Real Estate</i> | 131.3 | 129.9 | 126.0 | 119.7 | 107.8 |
| Residential Real Estate | 174.1 | 172.7 | 195.2 | 194.9 | 191.6 |
| Consumer | 62.8 | 64.5 | 71.9 | 79.6 | 88.0 |
| Agriculture | 10.4 | 10.7 | 10.8 | 11.4 | 12.5 |

BANKING PROFILE

| Largest Deposit Markets | Institutions in Market | Deposits (\$ millions) | Asset Distribution | Institutions |
|--------------------------------|-------------------------------|-------------------------------|------------------------------|---------------------|
| Birmingham-Hoover, AL | 39 | 20,141 | < \$250 million | 125 (78.1%) |
| Montgomery, AL | 19 | 4,810 | \$250 million to \$1 billion | 27 (16.9%) |
| Mobile, AL | 13 | 4,803 | \$1 billion to \$10 billion | 4 (2.5%) |
| Huntsville, AL | 14 | 4,480 | > \$10 billion | 4 (2.5%) |
| Columbus, GA-AL | 15 | 4,279 | | |